

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Eagle Harbor Township, Michigan	County Keweenaw
Fiscal Year End March 31, 2006	Opinion Date August 24, 2006	Date Audit Report Submitted to State September 7, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

☒ YES ☒ NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Jackie A. Aalto, CPA		Telephone Number (906) 337-2727		
Street Address 116 Fifth Street		City Calumet	State MI	Zip 49913
Authorizing CPA Signature Jackie A. Aalto, CPA		Printed Name Jackie A. Aalto		License Number 1101022394

EAGLE HARBOR TOWNSHIP, MICHIGAN
Keweenaw County

FINANCIAL REPORT

Year Ended March 31, 2006

EAGLE HARBOR TOWNSHIP, MICHIGAN
FINANCIAL REPORT
Year Ended March 31, 2006

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INDEPENDENT AUDITOR'S REPORT

Board Members
Eagle Harbor Township, Michigan

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Eagle Harbor Township, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Eagle Harbor Township, Michigan's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

As discussed in Note I-C, Eagle Harbor Township, Michigan prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

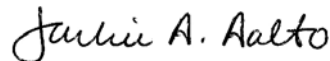
In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Eagle Harbor Township, Michigan, as of March 31, 2006 and the respective changes in financial position and cash flows – modified cash basis, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note I-C.

In accordance with *Government Auditing Standards*, I have also issued my report dated August 24, 2006, on my consideration of Eagle Harbor Township, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of

that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 5 through 10 and 30 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Eagle Harbor Township, Michigan's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Jackie A. Aalto, CPA

Calumet, Michigan
August 24, 2006

EAGLE HARBOR TOWNSHIP, MICHIGAN

Management's Discussion and Analysis

The management of Eagle Harbor Township, Michigan ("the Township") offers readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended March 31, 2006. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The assets of the Township exceeded its liabilities at the close of this fiscal year by \$2,409,868 (net assets). Governmental activities represented \$1,656,246 of this total, while business-type activities accounted for \$753,622 of this total.
- The Township's total net assets increased by \$139,952. \$50,000 of this increase is attributed to a grant from Rural Development for the purchase of a fire truck.
- The Township's total debt increased by a net amount of \$205,159 during the current fiscal year. The key factor in this increase was the issuance of \$225,000 in notes for the purchase of a fire truck. This was offset by \$19,841 in principal repayments during the year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or most of their costs through user fees and charges (*business-*

type activities). The governmental activities of the Township include general government, public safety, public works, and parks and recreation. The business-type activities of the Township include the operations of the water distribution system and solid waste disposal.

The government-wide financial statements can be found on pages 11 and 12 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide statement, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Township maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Township adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 13 - 15 of this report.

Proprietary funds. The Township maintains one type of proprietary fund. The enterprise fund is used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Township uses the enterprise fund to account for the operations of its water distribution system and solid waste disposal.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Solid Waste Funds, both of which are considered to be major funds of the Township.

The basic proprietary fund financial statements can be found on pages 16 - 18 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 19 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 - 28 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* that explains and supports the information presented in the financial statements. This information can be found on page 30 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining fund statements can be found on pages 32 - 34 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Township, assets exceed liabilities by \$2,409,868 at the close of the most recent fiscal year.

A large portion of the Township's net assets (79%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and the water system), less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Eagle Harbor Township, Michigan's Net Assets (in thousands of dollars)

	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 370.2	\$ 144.1	\$ 514.3
Capital assets	<u>1,611.5</u>	<u>609.5</u>	<u>2,221.0</u>
Total Assets	<u>1,981.7</u>	<u>753.6</u>	<u>2,735.3</u>
Long-term liabilities outstanding	.6		.6
Other liabilities	<u>324.9</u>		<u>324.9</u>
Total Liabilities	<u>325.5</u>		<u>325.5</u>

Net Assets:

Invested in capital assets, net of related debt	1,286.6	609.5	1,896.1
Restricted	67.2		67.2
Unrestricted	<u>302.4</u>	<u>144.1</u>	<u>446.5</u>
Total Net Assets	<u>\$ 1,656.2</u>	<u>\$ 753.6</u>	<u>\$ 2,409.8</u>

An additional portion of the Township's net assets (3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (18% or \$446,573) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Township is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The Township's net assets have increased by \$139,952 during the current fiscal year. Governmental activities increased the Township's net assets by \$118,606 and business-type activities decreased the Township's net assets by \$21,346. Key elements are as follows:

Eagle Harbor Township, Michigan's Changes in Net Assets
(in thousands of dollars)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Revenues:			
Program revenues:			
Charges for services	\$ 13.2	\$ 107.2	\$ 120.4
Operating grants & contributions	18.5		18.5
Capital grants & contributions	50.0		50.0
General revenues:			
Property taxes	179.6		179.6
State-shared revenues	24.4		24.4
Interest	<u>5.5</u>	<u>1.8</u>	<u>7.3</u>
Total Revenues	<u>291.2</u>	<u>109.0</u>	<u>400.2</u>
Expenses:			
General government	89.9		89.9
Public safety	48.6		48.6
Public works	26.6		26.6
Recreation & culture	3.5		3.5
Interest on long-term debt	4.0		4.0
Water system		59.3	59.3
Solid waste		<u>28.4</u>	<u>28.4</u>
Total Expenses	<u>172.6</u>	<u>87.7</u>	<u>260.3</u>
Change in net assets	118.6	21.3	139.9
Net Assets – Beginning	<u>1,537.6</u>	<u>732.3</u>	<u>2,269.9</u>
Net Assets – Ending	<u>\$ 1,656.2</u>	<u>\$ 753.6</u>	<u>\$ 2,409.8</u>

Financial Analysis of the Government's Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$366,451. Approximately 65% of this total amount (\$237,511) constitutes unreserved, undesignated fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed.

The General Fund is the chief operating fund of the Township. At the end of the current fiscal year, the fund balance of the General Fund was \$299,004, of which \$231,760 was unreserved and undesignated. As a measure of the General Fund's liquidity, it may be useful to compare the total unreserved fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 54% of total General Fund expenditures.

The fund balance of the Township's General Fund has increased by \$38,007 during the current fiscal year.

Proprietary funds. The Township's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Net assets at the end of the year amounted to \$753,622. Of this amount, \$609,457 was invested in capital assets and \$144,165 was unrestricted.

General Fund Budgetary Highlights

During the year there was a \$288,578 increase in total appropriations between the original and final amended budget. This increase was primarily caused by a \$289,880 supplemental appropriation for the purchase of a fire truck.

Capital Asset and Debt Administration

Capital Assets. The Township's investment in capital assets for its governmental and business-type activities as of March 31, 2006, amounts to \$2,220,912 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities and the water system. The more significant capital asset purchases during the current year included \$279,880 for a fire truck.

Eagle Harbor Township, Michigan's Capital Assets
(net of depreciation)
(in thousands of dollars)

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$ 1,126.7	\$	\$ 1,126.7
Buildings & improvements	61.2	5.4	66.6
Machinery & equipment	423.6	5.8	429.4
Water system	<u> </u>	<u>598.3</u>	<u>598.3</u>
Total Assets	<u>\$ 1,611.5</u>	<u>\$ 609.5</u>	<u>\$ 2,221.0</u>

Additional information on the Township's capital assets can be found in Note IV on page 25 of this report.

Long-term debt. At the end of the current fiscal year, the Township had total debt of \$324,861, all of which is debt backed by the full faith and credit of the government.

Eagle Harbor Township, Michigan's Outstanding Debt
General Obligations and Installment Purchase Agreement

	<u>Governmental Activities</u>
Loans	\$ 225,000
Installment purchase agreement	<u>99,861</u>
Total	<u>\$ 324,861</u>

The Township's total debt has increased by \$205,159 during the current year.

Additional information on the Township's long-term debt can be found in Note VI on page 27 of this report.

Request for Information

This financial report is intended to provide a general overview of the Township's finances for all those with an interest in the Township's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Eagle Harbor Township, 321 Center Street, Eagle Harbor, Michigan 49950.

EAGLE HARBOR TOWNSHIP, MICHIGAN**Statement of Net Assets – Modified Cash Basis****March 31, 2006**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash	\$ 199,803	\$ 94,165	\$ 293,968
Investments	100,000	50,000	150,000
Deferred charges	3,201		3,201
Restricted assets:			
Cash	57,244		57,244
Investments	10,000		10,000
Capital assets not being depreciated	1,126,715		1,126,715
Capital assets being depreciated, net	<u>484,740</u>	<u>609,457</u>	<u>1,094,197</u>
Total Assets	<u>1,981,703</u>	<u>753,622</u>	<u>2,735,325</u>
Liabilities			
Intergovernmental payable	596		596
Noncurrent liabilities:			
Due within one year	19,744		19,744
Due in more than one year	<u>305,117</u>		<u>305,117</u>
Total Liabilities	<u>325,457</u>		<u>325,457</u>
Net Assets			
Invested in capital assets, net of related debt	1,286,594	609,457	1,896,051
Restricted for:			
Recreation & culture	11,965		11,965
Other purposes	55,279		55,279
Unrestricted	<u>302,408</u>	<u>144,165</u>	<u>446,573</u>
Total Net Assets	<u>\$ 1,656,246</u>	<u>\$ 753,622</u>	<u>\$ 2,409,868</u>

The notes to the financial statements are an integral part of this statement.

EAGLE HARBOR TOWNSHIP, MICHIGAN

Statement of Activities – Modified Cash Basis

Year Ended March 31, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary Government:							
Governmental activities:							
General government	\$ 89,934	\$ 12,646	\$ 2,231	\$	\$ (75,057)	\$	\$ (75,057)
Public safety	48,583		5,188	50,000	6,605		6,605
Public works	26,578				(26,578)		(26,578)
Recreation & culture	3,461	600	11,087		8,226		8,226
Interest on long-term debt	<u>3,992</u>				<u>(3,992)</u>		<u>(3,992)</u>
Total governmental activities	<u>172,548</u>	<u>13,246</u>	<u>18,506</u>	<u>50,000</u>	<u>(90,796)</u>		<u>(90,796)</u>
Business-type activities:							
Water	59,322	81,425				22,103	22,103
Solid waste	<u>28,337</u>	<u>25,766</u>				<u>(2,571)</u>	<u>(2,571)</u>
Total business-type activities	<u>87,659</u>	<u>107,191</u>				<u>19,532</u>	<u>19,532</u>
Total primary government	<u>\$ 260,207</u>	<u>\$ 120,437</u>	<u>\$ 18,506</u>	<u>\$ 50,000</u>	<u>(90,796)</u>	<u>19,532</u>	<u>(71,264)</u>
General revenues:							
Property taxes					179,617		179,617
State shared revenues					24,247		24,247
Interest					<u>5,538</u>	<u>1,814</u>	<u>7,352</u>
Total general revenues					<u>209,402</u>	<u>1,814</u>	<u>211,216</u>
Change in net assets					118,606	21,346	139,952
Net assets – Beginning					<u>1,537,640</u>	<u>732,276</u>	<u>2,269,916</u>
Net assets – Ending					<u>\$ 1,656,246</u>	<u>\$ 753,622</u>	<u>\$ 2,409,868</u>

The notes to the financial statements are an integral part of this statement.

EAGLE HARBOR TOWNSHIP, MICHIGAN**Balance Sheet – Modified Cash Basis
Governmental Funds****March 31, 2006**

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash	\$ 132,356	\$ 67,447	\$ 199,803
Investments	100,000		100,000
Restricted assets:			
Cash	57,244		57,244
Investments	<u>10,000</u>	<u> </u>	<u>10,000</u>
Total Assets	<u>\$ 299,600</u>	<u>\$ 67,447</u>	<u>\$ 367,047</u>
Liabilities and Fund Balances			
Liabilities			
Intergovernmental payable	<u>\$ 596</u>	<u>\$ </u>	<u>\$ 596</u>
Fund Balances			
Reserved for:			
Community projects	19,676		19,676
Capital acquisitions	29,185		29,185
Recreation & culture	11,965		11,965
Public safety	6,418	61,696	68,114
Unreserved, undesignated reported in:			
General fund	231,760		231,760
Special revenue funds	<u> </u>	<u>5,751</u>	<u>5,751</u>
Total Fund Balances	<u>299,004</u>	<u>67,447</u>	366,451
Total Liabilities and Fund Balances	<u>\$ 299,600</u>	<u>\$ 67,447</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,611,455
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(324,861)
Deferred charges for debt issuance costs, net of amortization, are capitalized in the government-wide financial statements	<u>3,201</u>
Net assets of governmental activities	<u>\$ 1,656,246</u>

The notes to the financial statements are an integral part of this statement.

EAGLE HARBOR TOWNSHIP, MICHIGAN

**Statement of Revenues, Expenditures and Changes in Fund Balances –
Modified Cash Basis
Governmental Funds**

Year Ended March 31, 2006

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$ 127,285	\$ 52,332	\$ 179,617
Intergovernmental			
Federal	50,000		50,000
State	26,478	604	27,082
Charges for services	6,259	4,050	10,309
Interest & rents	5,704	836	6,540
Other	<u>13,022</u>	<u>4,584</u>	<u>17,606</u>
Total Revenues	<u>228,748</u>	<u>62,406</u>	<u>291,154</u>
Expenditures			
Current			
General government	67,390	2,147	69,537
Public safety	6,857	27,311	34,168
Public works	26,397		26,397
Recreation & culture	3,461		3,461
Other	16,115		16,115
Debt service			
Principal	19,841		19,841
Interest	3,992		3,992
Debt issuance costs	3,274		3,274
Capital outlay	<u>283,414</u>	<u>1,899</u>	<u>285,313</u>
Total Expenditures	<u>430,741</u>	<u>31,357</u>	<u>462,098</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(201,993)</u>	<u>31,049</u>	<u>(170,944)</u>
Other Financing Sources (Uses)			
Note proceeds	225,000		225,000
Transfers in	15,000		15,000
Transfers out	<u></u>	<u>(15,000)</u>	<u>(15,000)</u>
Total Other Financing Sources (Uses)	<u>240,000</u>	<u>(15,000)</u>	<u>225,000</u>
Net Change in Fund Balances	38,007	16,049	54,056
Fund Balances – Beginning	<u>260,997</u>	<u>51,398</u>	
Fund Balances – Ending	<u>\$ 299,004</u>	<u>\$ 67,447</u>	

EAGLE HARBOR TOWNSHIP, MICHIGAN

**Statement of Revenues, Expenditures and Changes in Fund Balances –
Modified Cash Basis (Continued)
Governmental Funds**

Year Ended March 31, 2006

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Amounts reported for governmental activities in the statement of activities are different because:			
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.			266,508
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.			<u>(201,958)</u>
Change in net assets of governmental activities			<u>\$ 118,606</u>

The notes to the financial statements are an integral part of this financial statement.

EAGLE HARBOR TOWNSHIP, MICHIGAN

**Statement of Net Assets – Modified Cash Basis
Proprietary Funds**

March 31, 2006

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Solid Waste</u>	<u>Total</u>
Assets			
Current Assets:			
Cash	\$ 45,738	\$ 48,427	\$ 94,165
Investments	<u>50,000</u>	<u> </u>	<u>50,000</u>
Total Current Assets	95,738	48,427	144,165
Noncurrent assets:			
Capital assets being depreciated, net	<u>600,967</u>	<u>8,490</u>	<u>609,457</u>
Total Assets	<u>696,705</u>	<u>56,917</u>	<u>753,622</u>
Liabilities			
Net Assets			
Invested in capital assets, net of related debt	600,967	8,490	609,457
Unrestricted	<u>95,738</u>	<u>48,427</u>	<u>144,165</u>
Total Net Assets	<u>\$ 696,705</u>	<u>\$ 56,917</u>	<u>\$ 753,622</u>

The notes to the financial statements are an integral part of this statement.

EAGLE HARBOR TOWNSHIP, MICHIGAN**Statement of Revenues, Expenses and Changes in Net Assets – Modified Cash Basis
Proprietary Funds****Year Ended March 31, 2006**

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Solid Waste</u>	<u>Total</u>
Operating Revenues			
Charges for services	<u>\$ 81,425</u>	<u>\$ 25,766</u>	<u>\$ 107,191</u>
Operating Expenses			
Personal services	18,548	4,587	23,135
Administration	313	150	463
Contracted services		16,720	16,720
Utilities & telephone	2,716	697	3,413
Supplies & maintenance	18,337	97	18,434
Other services & charges	4,564	3,030	7,594
Depreciation	<u>14,844</u>	<u>3,056</u>	<u>17,900</u>
Total Operating Expenses	<u>59,322</u>	<u>28,337</u>	<u>87,659</u>
Operating Income (Loss)	22,103	(2,571)	19,532
Nonoperating Revenues (Expenses)			
Interest income	<u>1,088</u>	<u>726</u>	<u>1,814</u>
Change in Net Assets	23,191	(1,845)	21,346
Total Net Assets - Beginning	<u>673,514</u>	<u>58,762</u>	<u>732,276</u>
Total Net Assets - Ending	<u>\$ 696,705</u>	<u>\$ 56,917</u>	<u>\$ 753,622</u>

The notes to the financial statements are an integral part of this statement.

EAGLE HARBOR TOWNSHIP, MICHIGAN**Statement of Cash Flows – Modified Cash Basis
Proprietary Funds****Year Ended March 31, 2006**

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Solid Waste</u>	<u>Total</u>
Cash Flows from Operating Activities			
Receipts from customers and users	\$ 81,425	\$ 25,766	\$ 107,191
Payments to suppliers	(25,930)	(20,694)	(46,624)
Payments to employees	<u>(18,548)</u>	<u>(4,587)</u>	<u>(23,135)</u>
Net cash provided by operating activities	<u>36,947</u>	<u>485</u>	<u>37,432</u>
Cash Flows from Capital and Related Financing Activities			
Purchase of capital assets	<u>(2,099)</u>	<u> </u>	<u>(2,099)</u>
Cash Flows from Investing Activities			
Interest received	1,088	726	1,814
Purchase of investment	<u>(50,000)</u>	<u> </u>	<u>(50,000)</u>
Net cash provided (used) by investing activities	<u>(48,912)</u>	<u>726</u>	<u>(48,186)</u>
Net Increase (Decrease) in Cash	(14,064)	1,211	(12,853)
Cash – Beginning	<u>59,802</u>	<u>47,216</u>	<u>107,018</u>
Cash – Ending	<u>\$ 45,738</u>	<u>\$ 48,427</u>	<u>\$ 94,165</u>
Reconciliation of operating income (loss) to net cash provided operating activities:			
Operating income (loss)	\$ 22,103	\$ (2,571)	\$ 19,532
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	<u>14,844</u>	<u>3,056</u>	<u>17,900</u>
Net cash provided by operating activities	<u>\$ 36,947</u>	<u>\$ 485</u>	<u>\$ 37,432</u>

The notes to the financial statements are an integral part of this statement.

EAGLE HARBOR TOWNSHIP, MICHIGAN

**Statement of Net Assets – Modified Cash Basis
Fiduciary Funds
March 31, 2006**

	<u>Agency Funds</u>
Assets	
Cash	<u>\$ 27,748</u>
Liabilities	
Intergovernmental payable	<u>\$ 27,748</u>

The notes to the financial statements are an integral part of this statement.

EAGLE HARBOR TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2006

Note I – Summary of Significant Accounting Policies

Eagle Harbor Township, Michigan (“the Township”) was organized in 1861 and covers an area of approximately 118,645 acres. The Township operates under an elected board of trustees consisting of five members including a supervisor, clerk, treasurer and two trustees. Services provided to the residents include a water supply system, fire protection, solid waste disposal, recreation and community enrichment. Except for the use of a modified cash basis of accounting as described in Note I-C, the accounting policies of Eagle Harbor Township, Michigan conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Eagle Harbor Township, Michigan:

A. Financial Reporting Entity

In determining the financial reporting entity, the Township complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*. Management has addressed the potential component units (traditionally separate reporting entities) that the Township may be financially accountable and, as such, should be included within the Township’s financial statements. The Township (the primary government) is financially accountable if it appoints a voting majority of the organization’s governing board and 1) it is able to impose its will on the organization or 2) there is a potential for the organization to provide specific financial burden on the Township. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. There are no organizations that meet these criteria.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

EAGLE HARBOR TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2006

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements, and the fund financial statements, governmental and business-type activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, and a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide financial statements and the proprietary fund financial statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *are not recorded* in these financial statements.

If the Township utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for the proprietary and fiduciary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

The Township reports the following major governmental fund:

The *General Fund* is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Township reports the following major proprietary funds:

The *Water Fund* accounts for the activities of the Township's water distribution system.

The *Solid Waste Fund* accounts for the activities of the Township's solid waste removal operations.

Additionally, the Township reports the following nonmajor governmental funds: Fire Operating, Fire, Cemetery and Liquor.

EAGLE HARBOR TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2006

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and solid waste functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

Bank Deposits – The Township's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with original maturities of three months or less from the date of acquisition. The Township has no short-term investments.

Investments – Investments classified in the financial statements consist entirely of certificates of deposit whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

Receivables and Payables – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the

EAGLE HARBOR TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2006

noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

When applicable, advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles. Property taxes are levied on December 1st and are due and payable on or before February 14th of the following calendar year. The Township bills and collects its own taxes. Unpaid delinquent real property taxes are collected by the County. Unpaid personal property taxes are collected by the Township.

The 2005 taxable valuation of the Township totaled \$27,041,953, on which ad valorem taxes levied consisted of 1.1894 mills for operating purposes and 2.8938 mills for extra voted operating purposes and .9150 mills for fire operating purposes. This resulted in \$32,164, \$78,254 and \$24,743, respectively. These amounts are recorded in the General and Fire Operating Funds.

Restricted Assets – Restricted assets include assets that are legally restricted as to their use. The restricted assets are related to restrictions imposed by third parties.

Capital Assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are generally defined by the Township as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, there was no interest expense that was capitalized as part of the cost of assets under construction.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20 to 50 years
Water system	40 to 60 years
Machinery and equipment	3 to 25 years

EAGLE HARBOR TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2006

Long-term Obligations – In the government-wide financial statements, and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Debt issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize debt issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note II – Stewardship, Compliance, and Accountability

Budgetary Information

The Township is required to follow the budget system provided by Michigan Public Act 621 – Uniform Budgeting and Accounting Act. The budget basis of accounting does not differ significantly from the financial statement presentation used to reflect actual revenues and expenditures. All annual appropriations lapse at fiscal year end. Encumbrance accounting is not employed in governmental funds.

Note III – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Township is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classification which mature not more than 270 days after the date of purchase; obligations of the

EAGLE HARBOR TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2006

State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Township's deposits are in accordance with statutory authority. The Township has designated five banks for the deposit of Township funds.

The Township's deposits and investments as of March 31, 2006 are included in the statement of net assets under the following categories:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Cash	\$ 199,803	\$ 94,165	\$ 293,968
Investments	100,000	50,000	150,000
Restricted assets – cash	57,244		57,244
Restricted assets – investments	<u>10,000</u>	<u></u>	<u>10,000</u>
	<u>\$ 367,047</u>	<u>\$ 144,165</u>	<u>\$ 511,212</u>

The bank balance of the Township's deposits is \$534,779 of which \$200,000 is covered by federal depository insurance and \$334,779 is uninsured.

Note IV – Capital Assets

Capital asset activity for the year ended March 31, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 1,124,800	\$ 1,915	\$	\$ 1,126,715
Capital assets being depreciated:				
Buildings & improvements	87,385			87,385
Machinery & equipment	<u>269,804</u>	<u>283,398</u>	<u></u>	<u>553,202</u>
Total capital assets being depreciated	<u>357,189</u>	<u>283,398</u>	<u></u>	<u>640,587</u>
Accumulated depreciation for:				
Building & improvements	(23,464)	(2,766)		(26,230)
Machinery & equipment	<u>(113,578)</u>	<u>(16,039)</u>	<u></u>	<u>(129,617)</u>
Total accumulated depreciation	<u>(137,042)</u>	<u>(18,805)</u>	<u></u>	<u>(155,847)</u>
Total capital assets being depreciated, net	<u>220,147</u>	<u>264,593</u>	<u></u>	<u>484,740</u>
Governmental activities capital assets, net	<u>\$ 1,344,947</u>	<u>\$ 266,508</u>	<u>\$</u>	<u>\$ 1,611,455</u>

EAGLE HARBOR TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2006

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities:				
Capital assets being depreciated:				
Buildings & improvements	\$ 15,632	\$	\$	\$ 15,632
Water system	733,821			733,821
Equipment	<u>27,074</u>	<u>2,099</u>		<u>29,173</u>
Total capital assets being depreciated	<u>776,527</u>	<u>2,099</u>		<u>778,626</u>
Accumulated depreciation:				
Buildings & improvements	(9,825)	(447)		(10,272)
Water system	(120,871)	(14,676)		(135,547)
Equipment	<u>(20,573)</u>	<u>(2,777)</u>		<u>(23,350)</u>
Total accumulated depreciation	<u>(151,269)</u>	<u>(17,900)</u>		<u>(169,169)</u>
Business-type activities capital assets, net	<u>\$ 625,258</u>	<u>\$ (15,801)</u>	<u>\$</u>	<u>\$ 609,457</u>

Depreciation expense was charged to functions/programs of the government as follows:

Governmental activities:

General government	\$ 4,209
Public safety	14,415
Public works	<u>181</u>

Total depreciation expense - governmental activities \$ 18,805

Business-type activities

Water	\$ 14,844
Solid waste	<u>3,056</u>

Total depreciation expense - business-type activities \$ 17,900

Note V – Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of March 31, 2006 was as follows:

Interfund transfers:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Fire Operating Fund	<u>\$ 15,000</u>

Interfund balances represent routine and temporary cash flow assistance until funds are transferred.

EAGLE HARBOR TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2006

Note VI – Long-Term Liabilities

General obligation bonds and loans are direct obligations and pledge the full faith and credit of the Township. Contractual agreements and installment purchase agreements are also general obligations of the Township.

Long-term liability activity for the year ended March 31, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Loans					
Rural Development – Fire truck. Interest is 4.25%, matures November 2021	\$	\$ 35,000	\$	\$ 35,000	\$ 1,000
Rural Development – Fire truck. Interest is 4.25%, matures November 2021		190,000		190,000	8,000
Installment Purchase Agreement					
Bank – Land. Interest is 3.5% to be adjusted September 2009, matures September 2014	<u>119,702</u>	<u> </u>	<u>(19,841)</u>	<u>99,861</u>	<u>10,744</u>
Governmental Activities – Long-term Liabilities	<u>\$ 119,702</u>	<u>\$ 225,000</u>	<u>\$ (19,841)</u>	<u>\$ 324,861</u>	<u>\$ 19,744</u>

Annual debt service requirements to maturity for the above loans and contractual obligations are as follows:

<u>Year Ended March 31,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 19,744	\$ 13,058
2008	21,120	12,299
2009	22,010	11,485
2010	23,913	10,636
2011	24,829	9,709
2012-2016	115,245	33,383
2017-2021	<u>98,000</u>	<u>12,921</u>
	<u>\$ 324,861</u>	<u>\$ 103,491</u>

EAGLE HARBOR TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2006

Note VII – Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and employee injuries (workers' compensation). All risk of loss is covered by commercial insurance. Settled claims resulting from these risks have not exceeded the amount of insurance coverage in the past three fiscal years.

Note VIII – Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amount, if any, to be immaterial.

Required Supplementary Information

EAGLE HARBOR TOWNSHIP, MICHIGAN

**Budgetary Comparison Schedule – Modified Cash Basis
General Fund
Year Ended March 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>
	<u>Original</u>	<u>Final</u>	
Beginning Budgetary Fund Balance	\$ 260,997	\$ 260,997	\$ 260,997
Resources (Inflows):			
Taxes	109,300	109,110	127,285
Intergovernmental			
Federal		50,000	50,000
State	22,131	22,121	26,478
Charges for services	3,880	4,480	6,259
Interest & rents	4,441	4,641	5,704
Other			13,022
Note proceeds		225,000	225,000
Transfers from other funds	<u>600</u>	<u>15,000</u>	<u>15,000</u>
Amounts Available for Appropriation	<u>401,349</u>	<u>691,349</u>	<u>729,745</u>
Charges to Appropriations (Outflows):			
General government	83,935	82,435	67,390
Public safety	7,082	7,780	6,857
Public works	28,420	34,920	26,397
Recreation & culture	7,000	7,000	3,461
Other	41,712	34,712	16,115
Debt service	25,000	25,000	27,107
Capital outlay	<u></u>	<u>289,880</u>	<u>283,414</u>
Total Charges to Appropriations	<u>193,149</u>	<u>481,727</u>	<u>430,741</u>
Ending Budgetary Fund Balance	<u>\$ 208,200</u>	<u>\$ 209,622</u>	<u>\$ 299,004</u>

Other Supplementary Information

EAGLE HARBOR TOWNSHIP, MICHIGAN

**Combining Balance Sheet – Modified Cash Basis
Nonmajor Governmental Funds
March 31, 2006**

	<u>Special Revenue Funds</u>				Total Nonmajor Governmental Funds
	<u>Fire Operating</u>	<u>Fire</u>	<u>Cemetery</u>	<u>Liquor</u>	
Assets					
Cash	<u>\$ 35,274</u>	<u>\$ 26,422</u>	<u>\$ 5,751</u>	<u>\$</u>	<u>\$ 67,447</u>
Liabilities and Fund Balances					
Liabilities	\$	\$	\$	\$	\$
Fund Balances					
Reserved for public safety	35,274	26,422			61,696
Unreserved, undesignated	<u> </u>	<u> </u>	<u>5,751</u>	<u> </u>	<u>5,751</u>
Total Fund Balances	<u>35,274</u>	<u>26,422</u>	<u>5,751</u>	<u> </u>	<u>67,447</u>
Total Liabilities and Fund Balances	<u>\$ 35,274</u>	<u>\$ 26,422</u>	<u>\$ 5,751</u>	<u>\$</u>	<u>\$ 67,447</u>

EAGLE HARBOR TOWNSHIP, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis Nonmajor Governmental Funds Year Ended March 31, 2006

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Fire Operating	Fire	Cemetery	Liquor	
Revenues					
Taxes	\$ 26,014	\$ 26,318	\$	\$	\$ 52,332
Intergovernmental – State	604				604
Charges for services			4,050		4,050
Interest	680	65	88	3	836
Other	<u>4,584</u>				<u>4,584</u>
Total Revenues	<u>31,882</u>	<u>26,383</u>	<u>4,138</u>	<u>3</u>	<u>62,406</u>
Expenditures					
Current					
General government			2,147		2,147
Public safety	26,516	2		793	27,311
Capital outlay	<u>1,899</u>				<u>1,899</u>
Total Expenditures	<u>28,415</u>	<u>2</u>	<u>2,147</u>	<u>793</u>	<u>31,357</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,467	26,381	1,991	(790)	31,049
Other Financing Sources (Uses)					
Transfers out	<u>(15,000)</u>				<u>(15,000)</u>
Net Change in Fund Balances	(11,533)	26,381	1,991	(790)	16,049
Fund Balances – Beginning	<u>46,807</u>	<u>41</u>	<u>3,760</u>	<u>790</u>	<u>51,398</u>
Fund Balances – Ending	<u>\$ 35,274</u>	<u>\$ 26,422</u>	<u>\$ 5,751</u>	<u>\$</u>	<u>\$ 67,447</u>

EAGLE HARBOR TOWNSHIP, MICHIGAN

**Combining Statement of Net Assets – Modified Cash Basis
Fiduciary Funds
March 31, 2006**

	<u>Agency Funds</u>		
	<u>Current Tax</u>	<u>Delinquent Tax</u>	
	<u>Account</u>	<u>Account</u>	<u>Total</u>
Assets			
Cash	<u>\$ 27,721</u>	<u>\$ 27</u>	<u>\$ 27,748</u>
 Liabilities			
Intergovernmental payable	<u>\$ 27,721</u>	<u>\$ 27</u>	<u>\$ 27,748</u>

EAGLE HARBOR TOWNSHIP, MICHIGAN

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board Members

Eagle Harbor Township, Michigan

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Eagle Harbor Township, Michigan, as of and for the year ended March 31, 2006, which collectively comprise Eagle Harbor Township, Michigan's basic financial statements and have issued my report thereon dated August 24, 2006. The report was a special report on Eagle Harbor Township, Michigan's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United State of America. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Eagle Harbor Township, Michigan's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted a certain matter involving the internal control over financial reporting and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Eagle Harbor Township, Michigan's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Following is a description of the reportable condition. Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected.

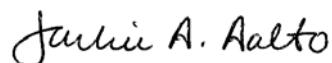
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Eagle Harbor Township, Michigan's financial statements are free of material misstatements, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, I noted certain matters that I have reported to the management of Eagle Harbor Township, Michigan in a separate letter dated August 24, 2006.

This report is intended solely for the information and use of the board membership, management, federal and state awarding agencies, and if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Jackie A. Aalto, CPA

Calumet, Michigan
August 24, 2006

August 24, 2006

To the Board Members
Eagle Harbor Township, Michigan

In planning and performing my audit of the financial statements of Eagle Harbor Township, Michigan for the year ended March 31, 2006, I considered its internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control. I noted certain matters involving the internal control and its operation and other items that came to my attention in the normal conduct of my audit that are presented to assist in approving accounting procedures and controls.

Reportable Condition

1. The size of the Township's accounting and administrative staff precludes certain internal controls that would be preferred if it were large enough to provide optimum segregation of duties. This dictates that the Township Board remains involved in the financial affairs of the Township to provide oversight and independent review functions.

Other Comments and Recommendations

2. The financial statements of the Township are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. I recommend that the financial statements be prepared on the basis of accounting required by accounting principles generally accepted in the United States of America.
3. At March 31, 2006 the Township's primary government had \$534,779 in deposits, of which \$334,779 was uninsured. I recommend that the Township review its investment policy and procedures to determine if there could be alternative investment strategies that would yield higher investment returns and also allow for FDIC protection.

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in my audit of the March 31, 2006 financial statements, and this report does not affect my report on those financial statements dated August 24, 2006. I have not considered the internal control since the date of my report.

This report is intended solely for the information and use of the board membership, management, federal and state awarding agencies, and, if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Jackie A. Aalto

Jackie A. Aalto